Statement of Senator Dianne Feinstein

Hearing on Oil and Gas Exploration off the California Coast
United States Department of the Interior

April 16, 2009

Mr. Secretary, thank you for coming to San Francisco – my hometown – to talk to the people of California about the critical issue of new offshore drilling.

The decisions that you make on this issue could profoundly impact California's future. So I thank you for coming to hear their voices directly.

Californians feel strongly about protecting our majestic coastline from the dangers of new offshore drilling. And I have long stood with the people of California as a fierce opponent to new offshore drilling.

Here's why: the risks of new oil and gas exploration far outweigh the potential benefits.

Allowing new rigs along California's coastline would not bring down gas prices, increase energy security, or fuel our economic recovery – as the "drill, baby, drill" advocates would have you believe.

In fact, new offshore drilling could jeopardize California's thriving coastal economy, our fragile ocean ecosystem, and our goal of making a permanent shift to a cleaner and greener energy economy.

Offshore drilling is no quick fix.

Instead, I look forward to working with you, the Administration, and my colleagues in Congress to forge a long-term energy strategy that breaks our fossil fuel habit and makes the permanent shift to renewable energy resources.

We need to promote conservation and develop clean technologies and clean fuels -- like wind, solar, geothermal and cellulosic ethanol.

We need to continue to raise fuel economy standards for vehicles and improve the energy efficiency of our buildings by 50 percent.

There's no time to waste.

Price Impacts

Last summer, drilling advocates tried – in vain – to convince the American public that new offshore drilling would somehow solve the skyrocketing oil prices, which spiked to more than $140 per barrel.

In July, President Bush unilaterally lifted the Executive Order which had banned new offshore drilling – claiming that it was in effort to lower energy costs. Congress, I am sorry to say, also allowed the moratorium to expire.

But it was clear that this push for new offshore drilling was a false promise -- and a distraction from our nation's lack of a coherent, long-term energy policy.

Since last summer, no new offshore rigs have been put in place off of California's coast. And yet oil prices have fallen more than 50 percent.

So, what can explain this sharp downturn in energy prices?

Some of the decline can be attributed to our nation's economic troubles – as well as a decline in world global energy demand.

But I believe one of the most important factors is the bursting of the energy speculation bubble.

Over the past few years, we witnessed an explosive growth of institutional investors speculating in energy markets, driving up energy prices – without any federal oversight. There is no doubt in my mind that this excessive speculation was a major part of the problem – and we've seen energy prices return to a balance of more natural supply and demand since these institutional investors have largely left the marketplace.

The False Promise

Simply put: we cannot drill our way to lower prices.

The experts at the Energy Information Agency, or EIA, in their 2007 Annual Energy Outlook concluded that opening all of the Outer Continental Shelf, or OCS: "Would not have a significant impact on domestic crude oil and natural gas production or prices before 2030."

The report also found that:

- "Leasing would begin no sooner than 2012, and production would not be expected to start before 2017."

- "Total domestic production of crude oil from 2012 through 2030 in the OCS access case is projected to be 1.6 percent higher than in the reference case."

So, new offshore drilling wouldn't produce a drop of oil for seven years or longer.

We also know that there is no correlation between increased drilling and lower gas prices. Drilling leases issued by the federal government to drill in federal waters and on federal lands increased by 361 percent from 1999 to 2007. And yet gas prices more than doubled in that time.

Additionally, most of the resources of the Outer Continental Shelf are already accessible to drilling through existing leases – right now.

According to the Minerals Management Service, of all the oil and gas believed to exist on the Outer Continental Shelf, 82 percent of the natural gas and 79 percent of the oil is located in areas that are currently open for leasing. *(See Exhibit 1)*

And in offshore areas open to drilling, oil companies are only producing oil or gas in 10.5 million of the 44 million leased acres. *(See Exhibit 2)*

Oil and gas companies currently hold leases to nearly 68 million acres of federal land and water that are not producing oil and gas. These inactive federal lands and waters could produce an additional 4.8 million barrels of oil and 44.7 billion cubic feet of natural gas each day. That would double U.S. oil production, and increase natural gas production by 75 percent.

Finally, the United States has less than 3 percent of global oil resources and we account for more than 25 percent of oil demand.

So, our nation's drilling policies will have far less impact on the global price of energy than will our policies regarding oil consumption.

<u>History:</u>

For decades, California has prevented new oil and gas development off our coastline.

Californians are all too familiar with the consequences of off-shore drilling. An oil spill in 1969 off the coast of Santa Barbara killed thousands of birds, as well as dolphins, seals, and other animals. Its impacts are still felt today. And we know this could happen again.

- California first protected its unmatched, publically-owned coastline by establishing "sanctuaries" from oil and gas drilling in the 1920s.

- From Fiscal Year 1982 to Fiscal Year 2008, annual Appropriations legislation enacted by Congress set aside California's most spectacular coastline from exploitation and potential destruction.

- Due to both environmental and economic concerns, the legislation prohibited leasing and drilling for oil in Federal waters off California. This was a wise and prudent policy, which I have championed in the Appropriations Committee every year.

- President George H.W. Bush, in 1990, issued a presidential directive ordering the Department of the Interior (DOI) not to conduct offshore leasing or preleasing activity in moratoria areas.

- In 1998, President Clinton extended the presidential offshore leasing prohibition until 2012.

Economic Impact

Fishing and recreational boating both contribute as much to the GDP of the United States as offshore drilling.

The economies throughout coastal watershed counties contribute $4.5 trillion annually to our economy -- fully half of the nation's gross domestic product. They account for some 60 million jobs.

The National Ocean Economics Program estimates that California has a $43 billion Ocean Economy that directly employs 408,000 people, and indirectly employs another 292,000 people.

That is nearly 19 percent of the nation's ocean related economic activity and jobs.

Given the current economic climate and the closing of the Chinook salmon fisheries for the second year in a row -- we simply cannot afford to jeopardize these critical jobs.

Conclusion

Mr. Secretary, I urge you to evaluate the economic risks of new offshore drilling, to look at the science demonstrating that offshore drilling is a false promise, and to listen to the pleas of the people of California.

It's time to reinstate the moratorium on new offshore drilling.

It's time to look forward to renewable energy to power America's economy – wind, solar, geothermal, biofuels.

Thank you.

Exhibit 1

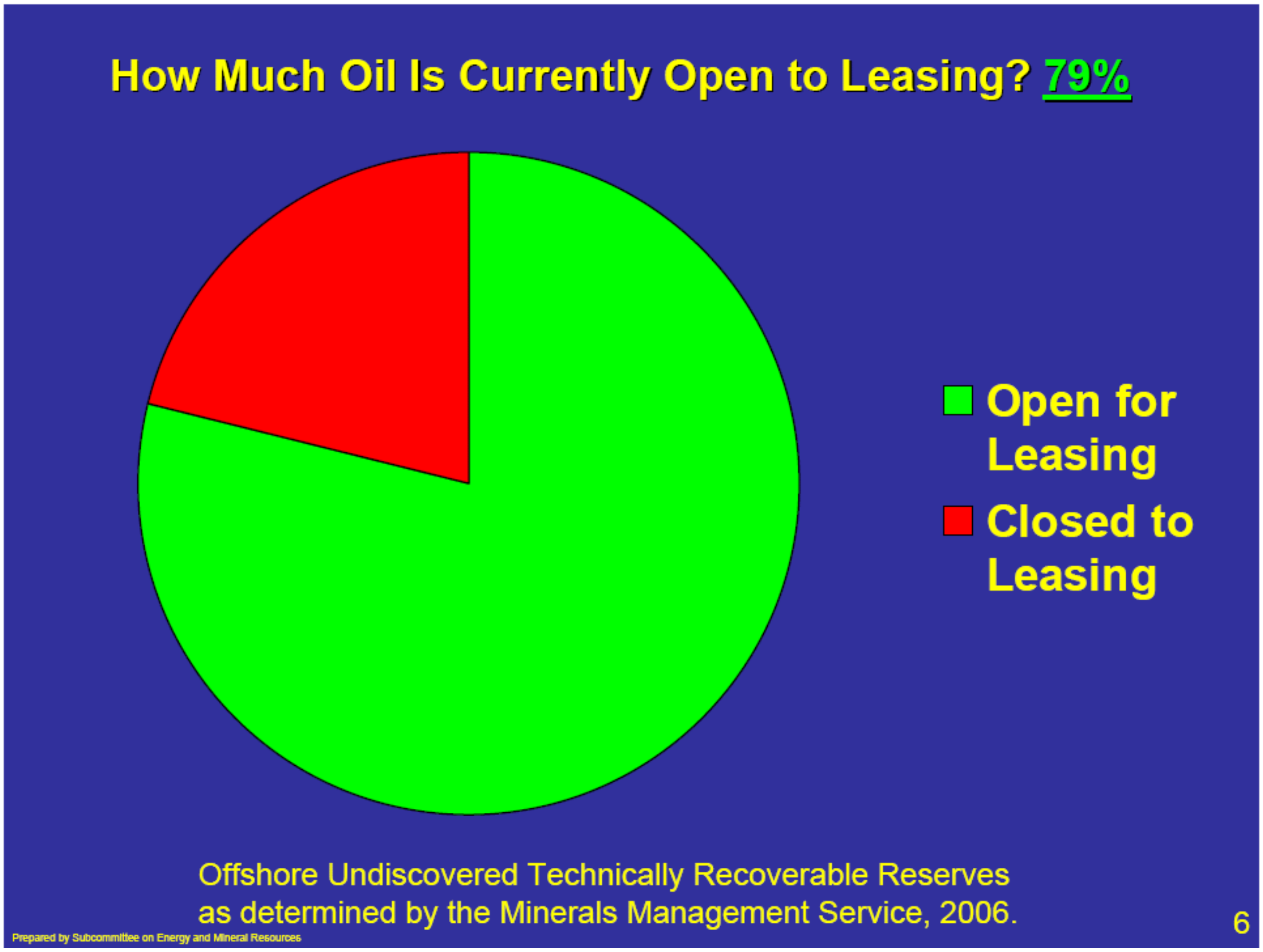
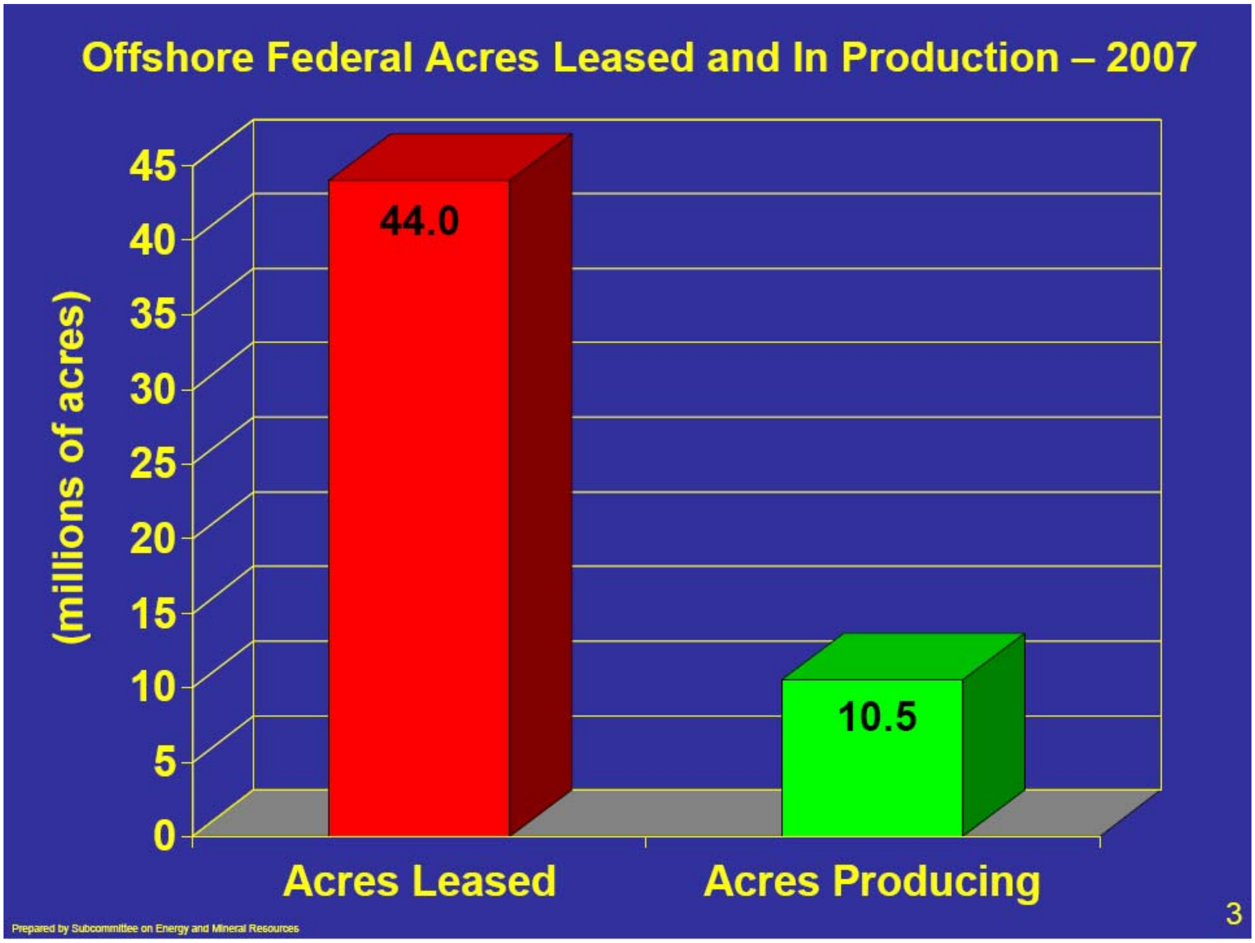

How Much Oil Is Currently Open to Leasing? 79%
Open for Leasing
Closed to Leasing
Offshore Undiscovered Technically Recoverable Reserves
as determined by the Minerals Management Service, 2006.
Prepared by Subcommittee on Energy and Mineral Resources
6

Exhibit 2


Offshore Federal Acres Leased and In Production – 2007
(millions of acres)
45
40
35
30
25
20
15
10
5
0
44.0
10.5
Acres Leased
Acres Producing
Prepared by Subcommittee on Energy and Mineral Resources
3